

Chapter **II.12**

A Malaysian Perspective on the WTO Ministerial and Asian Integration

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II.12 A Malaysian Perspective on the WTO Ministerial and Asian Integration

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The World Trade Organization (WTO) remains centrally relevant within the scheme of international trade in today's global scenario. It is important to safeguard and monitor global rules. The simplicity of the single framework that the WTO offers for global trade, standards and rules cannot be sufficiently emphasized. In this context, the Ninth WTO Ministerial Conference in Bali has a special role to play. Members will need to harness stronger political to ensure the necessary deliverables required so that the Doha Development Agenda can be completed after the Bali meeting.

One of the pressing needs of the Bali Ministerial is to generate renewed momentum for a longer-term vision of the WTO. As the WTO's long-term prospects are under pressure because of the proliferation of preferential trade agreements (PTAs). There is a danger that this could lead to the dilution of the strength of the WTO. The main concern is that these trends point to a possible lack of interest in the multilateral trade agenda. The favored approach to the integration of economies lies in forging bilateral and regional agreements, with the Trans-Pacific Partnership agreement being one such example. Although there is nothing innately wrong with PTAs, these agreements should not come at the expense of the multilateral trading system. Indeed, they should be complementary to the multilateral system and, certainly not be a risk to the robustness of the WTO.

The last Ministerial meeting held in Geneva in 2011 did not bring about much cheer to members, since ministers were largely in agreement that the Doha Round of trade talks had reached an impasse. The Bali Ministerial, thus, offers the opportunity for the Doha talks to be taken forward. There are various impediments to success in Bali. First, there are many technical topics that have been raised in previous meetings and on which no clear agreement has emerged. There is a need for closure on these issues. Second, there are several outstanding issues, such as trade

facilitation, some issues in agriculture and other items of interest to developing economies, which need to be addressed. These issues require political will. Third, any success at Bali, even if it is achieved, will not be the end of the road, but will only be a stepping stone towards the later conclusion of the Doha Round.

As far as ASEAN is concerned, the Ninth Ministerial conference is important because it offers a genuine opportunity to put the Doha Round back on track. Forward movement in Bali would help foster a fairer global trading environment and re-energize the negotiation process, ultimately strengthening the multilateral trading system.

As an ASEAN member country, Malaysia would like the Bali meeting to raise the level of engagement and restore a higher level of ambition to the WTO talks. This is necessary to advance the multilateral trade agenda. In order to achieve this, WTO Members should pursue realistic objectives, being cautious in their treatment of other Members' 'red lines'. It should be remembered that ASEAN is in danger of being distracted by its many preferential arrangements, not least the Regional Comprehensive Economic Program (RCEP). While RCEP is not damaging in itself, it could become the focus of attention if sufficient progress were not achieved in the Bali meeting. ASEAN member countries are keen to see greater evidence of a stronger commitment to the Doha Round at Bali.

There are several areas on which some advances can be made at the Ninth Ministerial Meeting. One is trade facilitation. Trade facilitation is a necessary instrument to encourage the trading process since it simplifies export and import transactions, for example through the creation of trade-friendly customs rules and procedures. This is an area that is likely to be less contentious and it is widely believed that enough momentum has been created here to bring about an early harvest at Bali. The reason for the strong hope that is placed on trade facilitation, and

the support that can be expected for this issue from ASEAN members, is that it is in the interest of ASEAN to achieve better trade facilitation. This will, among other things, facilitate trade within ASEAN itself.

Another important priority for Malaysia, as for other developing economies in ASEAN, is meaningful and improved market access for their exports. Most developing economies in ASEAN export a narrow range of products and these products often face high duties in export markets. It is true that most developed countries offer full or high duty free and quota free (DFQF) access to products coming from least developed countries. In fact, the 2005 Hong Kong Ministerial Conference agreed to grant at least 97 per cent DFQF access to LDC exports.

However, there is some disagreement between Asian and African countries over the implementation of DFQF. Nevertheless, this need not be an insurmountable obstacle to the implementation of DFQF access because there will be few overlapping tariff lines between countries in Africa and ASEAN. A meaningful and mutually satisfactory solution to this problem has to be found in Bali, such that additional commercial market access is given to all LDCs. For their part, the ASEAN countries concerned will have to hold discussions on DFQF access with their trading partners.

Related to the question of DFQF is that of preferential rules of origin. There has not been much progress on this issue at the WTO; nevertheless, it will have some impact on ASEAN member countries. Those developing member countries that are targeting the developed countries for their exports will find it useful if some progress is achieved in this area in a manner that is favorable to ASEAN countries, especially the less developed among them.

A fair and favorable discussion on preferential rules of origin that takes into account the needs of ASEAN countries will do much to re-ignite enthusiasm among members

on the benefits of multilateral cooperation. A revision of the rules of origin by developed countries will have a very positive effect on the export patterns of LDCs. Any agreed rules of origin will have to be simple and transparent. They will also have to facilitate market access and take into account the realities of global value chains.

At the 2011 Ministerial Conference there was a discussion on a waiver from most-favored nation (MFN) obligations under the General Agreement on Trade in Services (GATS). The point of this waiver would be to provide preferential market access to service suppliers from LDCs. This obviously has an impact on ASEAN member states for two reasons. First, it would enable a few ASEAN members to develop their services sector. Second, it will help service sectors to export to developed countries. The waiver will have the outcome of developing the growth of the services industries and securing them a bigger share of the global market.

The services waiver is a topic that must be taken up at the 2013 Ministerial Meeting. It is likely to enjoy the support of ASEAN member states and help to gain their confidence. This is because, granting preferential market access to the services and service providers from LDCs, will enable ASEAN countries to develop their services sector and make greater contributions to the GDP of these countries. Also it will strengthen the participation of ASEAN in the multilateral trading system.

On the downside, extending a services waiver may not be as promising as it sounds. First, the areas for which the waiver is granted in the services schedule may not be of much interest. The waiver may not apply to activities undertaken by low-skilled workers, which is where most LDCs have a comparative advantage. Second, developed countries may not be readily able to encourage their citizens to consume services in which ASEAN member states have a niche, for example in tourism. Nevertheless, the initiative will give renewed confidence to ASEAN countries and other LDCs in the multilateral trading system. The steps that will have to accompany

this initiative will be the process of identifying relevant sectors and modes of supply of priority export interest to LDCs.

It can be expected that trade facilitation will be a key topic for negotiation in Bali. This appears to be a matter of much interest to many WTO Members, whether they be developed or developing economies. ASEAN is in the process of examining trade facilitation and addressing shortcomings in this area because its member states are themselves working on trade facilitation within the context of their own regional compact and their other bilateral agreements with members from East Asia, Australia, New Zealand and India.

ASEAN member states have been taking various steps to improve their trade facilitation processes and procedures. There are many aspects of customs procedures that ASEAN members have worked upon and improved. Most of the members have also initiated national single window policies. In addition, there have been many efforts to improve efficiency and openness in the transport and logistics sector, with the easing of regulatory burdens and the creation of more business-friendly approaches. Generally, there has been a de-regulatory trend in the sector, which should enhance trade facilitation.

A move to conclude a Trade Facilitation Agreement in Bali is afoot. This is a fertile area for ASEAN to take advantage of, both because there is interest among its member states and also because there is interest among other WTO Members. While the on-going negotiations in WTO are about the practical aspects of the topic, such as measures to simplify processes and procedures, there is still room for LDCs to highlight their own concerns. And this is where ASEAN will want to take a stand because its primary interest would be to make a claim for technical assistance and capacity-building.

It should be noted that ASEAN member states are heading towards a Regional Comprehensive Economic Partnership (RCEP). RCEP was announced in 2011, during the 19th ASEAN Summit, and is expected to be concluded by 2015. The importance of RCEP lies in its objectives. First, RCEP is meant to bring about a mutually beneficial economic partnership agreement among ASEAN member states together with ASEAN's key PTA partners. Second, RCEP will deepen economic integration in the region and, thereby, boost growth and development. RCEP will cover the usual topics of a modern PTA, that is, trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition policy, dispute settlement, and other issues. Thus it is expected to be comprehensive.

However, the problem with RCEP is its expected flexible nature, as RCEP will offer numerous flexibility caveats that ensure that no member has to adopt trade policies with which it disagrees. Further, the RCEP process appears committed to allowing participating governments to protect sensitive industries from exposure to enhanced competition. The greatest obstacle to RCEP, however, will come from the different stages of development of ASEAN member countries and the differential treatment that they will expect. Also, some of the member states may be unable to push reforms to the extent expected, particularly Myanmar, Lao PDR and Cambodia.

Nevertheless, ASEAN member states are moving towards liberalizing their economies. Many initiatives are being taken in this direction, and efforts such as the liberalization of tariffs, trade facilitation and opening up of agricultural trade and services markets is on-going, with the objective of meeting the goals of the ASEAN Economic Community (AEC). The AEC has committed itself to an integrated ASEAN, and this cannot be achieved without liberalization of trade in goods and services, IPR regimes, dispute settlement and competition policy. The process is likely to be slow, but it should facilitate the process of multilateralizing regional advances.

On the other hand, the Trans-Pacific Partnership is likely to contain a more stringent set of rules and it will have higher standards than those set by the WTO. The TPP will be stronger on other issues, too, such as IPR, competition policy, government procurement and trade in services. But it must be remembered that not all ASEAN member states are involved in the TPP negotiations. Of the ASEAN members, only Brunei, Malaysia, Singapore and Vietnam are currently involved in both the TPP and RCEP. It should also be noted that some of the members negotiating the TPP that is, Australia, New Zealand, Chile and Singapore, were part of the P4 grouping. The latter Agreement grew out of a US proposal in 1998 for negotiations with this group of countries and the US has prior PTAs with all of them except New Zealand. In a sense, the TPP is enlarging its membership by including additional members. This is consistent with incremental multilateralization.

However, in geographical or regional terms, the TPP's membership is more diffuse. If the TPP's intention is to simplify and multilateralize regionalism, then this may not be the perfect vehicle for accomplishing it. Further, on the matter of rules of origin, the US has very different principles, since it differentiates duty free entry on the basis of product classifications, whereas in ASEAN it is generally done on the basis of the value that is added by the originating country. Thus, if the TPP follows the US template, as it is likely to, this could create more confusion in the region. This goes against the principle of multilateralizing regionalism. In this respect, the TPP may be less effective in multilateralizing regional advances.

In conclusion, there are good grounds for the WTO to work with ASEAN to strengthen multilateralism. Of course, the first best option is to revive the Doha Round and to make an attempt to sort out the disagreements that have hindered its progress. In the interim period, it would be strategic for the WTO to work with ASEAN and other PTAs with a view to multilateralizing regional advances. It is not advisable for the WTO to take a back seat and simply be a witness to the movement of

initiatives to forge regional integration. There is no doubt that regional integration is here to stay. Therefore, the WTO should take note of ongoing negotiations on agreements such as RCEP and take advantage of the situation to achieve broader goals.